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Cotton Production and Consumption Annual Report

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Report Highlights:

Post forecasts that the area under cotton production in Zimbabwe will increase, under normal climatic conditions, to about 300,000 hectares and production will recover to around 210,000 MT in the 2016/17 MY. This recovery will mainly be spurred on by the Zimbabwean government's free inputs support program that will reduce the production costs of cotton farmers. In the 2015/16 MY, seed cotton production decreased by 23 percent to around 80,000 MT, after one of the worst droughts the past 35 years hit Southern Africa.

Executive Summary:

Post forecasts a substantial increase in cotton production in the 2016/17 MY, premised on the Zimbabwean government's inputs support program to revive cotton production in Zimbabwe that will provide increased incomes to thousands of smallholder farmers. Ginners and merchants are also expected to continue supporting cotton production through contract farming schemes with smallholder farmers. Hence, post forecasts seed cotton production to recover to around 210,000 MT in the 2016/17 MY, after only 80,000 MT was produced in 2015/16 MY, due to extreme drought conditions.

Zimbabwe experienced a severe El Niño induced drought in 2015/16 MY that resulted in a reduction of the cotton area planted to an estimated 175,000 hectares from about 200,000 hectares planted in the 2014/15 MY. As a result, cotton lint exports in the 2015/16 MY are estimated at 33,000 MT, a decrease of 13 percent from the 38,000 MT exported in the 2014/15 MY.

Production

The 2015/16 agricultural season has been one of the worst ever experienced in Zimbabwe the past 35 years. The country experienced a drought-induced El Niño with a late season start, below normal rainfall, and high temperatures. The rainfall season started in late December in the western and northern cotton growing areas and in January in the south-eastern lowveld area of production and ended pre-maturely in March. The season was characterized by erratic and poorly distributed rainfall, with most areas experiencing two to three weeks of dry weather conditions and high temperatures for the greater part of the January and February. Parts of Sanyati went for up to 30 days without any rainfall. The dry spell coincided with the critical stages of growth and development in most areas and negatively affected production.

Cotton is the second most important cash crop in Zimbabwe after tobacco and is predominantly grown by smallholder farmers on an average of between one and two hectares under rain-fed conditions. The crop is grown in three main regions of the country that are relatively hot and receive rainfall of between 400mm and 600mm per annum. The three main production areas are:

I. The central and north-western parts of the country in Midlands, Mashonaland West and parts of Mashonaland Central provinces covering areas around Kadoma, Chegutu, Hurungwe, Gokwe North, Gokwe South, Sanyati, Patchway and Guruve.

II. The northern parts of the country in the Mashonaland Central province covering areas around Muzarabani, Mahuwe, Mushumbi and Binga in the Zambezi Valley, Mt. Darwin and Centenary

III. The south-eastern part of the country in the lowveld of the Manicaland and Masvingo provinces covering areas around Checheche, Triangle, Zaka, Mwenezi and Chiredzi.

Cotton is a major source of income for rural communities in these areas and at its peak cotton also accounted for close to a fifth of Zimbabwe's agricultural exports.

About 98 percent of the cotton crop in Zimbabwe is grown under contract farming arrangements where contractors supply production inputs (seed, fertilizer and chemicals) to farmers on loan. Before the beginning of the rainfall season, all contractors have to register with the Agricultural Marketing Authority (AMA) the intended volume of cotton to be purchased. AMA is the regulatory body mandated to ensure an orderly production environment and fair marketing of cotton. At harvest, the contractor buys back the contracted cotton and deducts costs of the inputs from the sales value before paying the remaining balance to the contracted farmer. These contract farming arrangements have been in place since the 1970s.

This season a total of eight ginners and merchants were registered by AMA as contractors, namely:

Cottco, Alliance Ginneries, China Africa, Sinotex, ETG Parrogate, Graphax, Olam Zimbabwe and Sino Zim. Over the years the number of contractors have declined from 30 in the 2006/07 MY to 16 in the 2012/13MY to the current eight.

The estimated number of cotton contract farmers in the 2015/16 MY fell by six percent to 125,000 from 133,333 farmers in the 2014/15 MY. The main contributors to this decline were the drought and the low price of seed cotton compared to other cash crops such as tobacco and soybeans.

Area planted with cotton in the 2015/16 MY is estimated at about 175,000 hectares, a 13 percent decrease from the 200,000 hectares planted in the 2014/15 MY. Yields decreased from 0.52 t/ha in the 2014/15 MY to 0.45 t/ha in the 2015/16 MY. As a result, seed cotton production in the 2015/16 MY is estimated to decline to around 80,000 MT from 104,000 MT in the 2014/15 MY. The main reasons for the decline in production were the late start of the season and the El Niño induced drought that caused erratic and poorly distributed rainfall in the country. The El Niño induced drought is the second consecutive drought in Zimbabwe after the 2014/15 season's drought.

In fact, cotton production in Zimbabwe has been on a downward trend for the last four years. In the 2013/14 MY, the country produced 136,000 MT seed cotton, a five percent decline from the 143,849 MT produced in the 2012/13 MY (see also Table 1). Besides the drought, a number of other challenges have led to the steady decline in cotton output over the last four seasons. The decline in international cotton prices is undermining cotton production, with farmers switching to more lucrative crops. The recurrent problem of side marketing has led to poor loan recovery by contractors and threatened the viability of contracting companies. The legislation, SI 142 of 2009, regulates the entire cotton value chain from production to marketing and prohibits a buyer to buy cotton from a grower contracted by another merchant. However, poor enforcement of compliance by AMA, the regulatory body, has led to the reluctance by contractors to commit large financial resources to contract farming. The contractors have either scaled down investment in cotton contract farming or exited the sector.

Table 1: Seed cotton production in Zimbabwe (2006 to 2016)

Market year	Numbe r of	Number of contractor	Area harveste	Productio n (MT)	Yiel d	Averag e price	Lint production	
							(MT)	(480lb

	farmers	s	d (ha)		(t/ha)	(USc/kg)		bales
2016/17[1]	200,000	8	300,000	210,000	0.70		86,100	395,000
2015/16	125,000	8	175,000	80,000	0.45	35[2]	32,800	150,000
2014/15	133,333	8	200,000	104,000	0.52	35	42,640	196,000
2013/14	134,452	8	250,000	136,000	0.54	45	55,760	255,000
2012/13	161,233	16	241,849	143,849	0.59	47	58,978	270,000
2011/12	288,601	15	432,901	350,703	0.81	40	143,788	660,000
2010/11	253,126	13	379,689	250,000	0.66	91	102,500	470,000
2009/10	210,000	12	315,000	267,000	0.85	37	109,470	502,000
2008/09	246,667	18	370,000	207,000	0.56	28	84,870	390,000
2007/08	260,000	25	390,000	223,746	0.57	20	91,736	421,000
2006/07	265,333	30	398,000	253,000	0.64	15	103,730	476,000

Source: Cotton Ginners Association
Notes: [1] Forecast.
[2] 2015/16 MY prices still need to be announced, however, prices are expected to be similar to 2014/15 MY prices.

Realizing the strategic importance of the cotton value chain in Zimbabwe and the thousands of smallholder farmers who rely on cotton production as a major source of income, the government of Zimbabwe decided to intervene to address the decline in seed cotton production and revive cotton farming. Besides bringing in foreign currency through lint exports, the textile, oil-pressing and stock feed industries benefit immensely from cotton production. Hence, in the National Budget statement presented to Parliament on 26 November 2015, the Minister of Finance announced that government has developed a US$25.8 million cotton inputs support scheme, targeting 250,000 hectares cotton production in the 2015/16 season, to revive cotton farming. The Cotton Input Financing Scheme provided seed; fertilizers and chemicals to growers (also see Table 2). The Zimbabwean government pledged to give free cotton inputs to cotton farmers for the next three seasons in order to revive cotton production.

Table 2: Government input scheme 2015/16 MY

Inputs	**Quantity**	**Value (US$)**
Cotton seed (tons)	5 000	8 500 000
Fertilizers		
Compound L (tons)	8 750	6 125 000
Top Dressing Fertilizer (tons)	8 750	5 687 500
Sub-total	*17 500*	*11 812 500*
Chemicals		
Acetermak (tons)	26.3	472 500
Carbaryl (tons)	175	2 362 500
Lambda/Pyretheroids (litres)	262 500	2 362 500
Acaricides (litres)	25 000	320 000
Subtotal		*5 517 500*
Grand total		**25,830,000**

AGRITEX, the government's extension services arm identified and registered beneficiary farmers and distributed the inputs. Each farmer received an input package covering a quarter of a hectare of cotton, comprising the following 5kg of cotton seed; 50 kg Compound L; 25 kg top dressing; 250 grams Carbaryl; 0.25 litres of Lambda/Pyretheroids; 50 grams Acetemak; and 2.5 ml of Acaricides.

However, in the 2015/16 season, the government's efforts failed to revive the sector, mainly due to two main reasons. Firstly, the scheme's inputs distribution was very late in the season. As at 23 November 2015, only about 450 tons of cotton seed had been distributed to farmers, against a target of 5,000 tons. Secondly, most of the inputs where distributed in January during the peak of the El Niño induced drought. Hence, cotton planting was not possible in most areas and the inputs were not used. As a result, the free inputs supplied did not impact cotton production in the 2015/16 MY, but will most likely make a positive impact on production in the 2016/17 MY, as the farmers will have the inputs at hand at the start of the season.

Another strategy by the Zimbabwean government, aimed at resuscitating the cotton sector, was to restructure Cottco through *inter alia* a Government's takeover of US$52.7 million of Cottco's debt, restructuring Cottco's costs and directing that Cottco purchases all cotton from the recipients of the free input scheme.

2016/17 MY Seed Cotton Outlook

Post forecasts that the area under seed cotton production will increase, under normal climatic conditions, to about 300,000 hectares and production will recover to around 210,000 MT in the 2016/17 MY. This recovery will mainly be spurred on by the government's free inputs support program that will reduce farmer's production costs.

The local demand for raw materials derived from cotton used in edible oil production and stock feed production will also stimulate production. Due to the severe liquidity crunch being experienced in the economy, Zimbabwe is promoting local manufacturing rather than imports.

The ginners aim to improve capacity utilization of local gins and as a result are expected to increase funding for the contracted cotton production. In accordance with SI 129 of 2009, the ginners can only buy the crop that they would have invested in.

Transgenic cotton

The government of Zimbabwe currently prohibits the commercial production of Genetically Engineered seeds, including Bt cotton, but allows controlled trials under supervision of the Biotechnology Authority of Zimbabwe. These cotton trials are conducted at the cotton training center in Kadoma.

Consumption

Government through AMA has set a quota of 30 percent of lint production to be used by the local industry. In the 2014/15 MY, the local industry only used about 10 percent of local lint, due to the low level of spinning in the country. When the domestic quota exceeds local demand, AMA authorizes the surplus to be exported.

At present most of the Zimbabwean lint is sold on the international market as the local value addition industries are very subdued.

Trade

In the 2014/15 MY, about 90 percent of domestic lint produced in the country was exported, mainly to South Africa, where it was warehoused before further exports to various destinations. Data on cotton lint exports from ZIMSTATS, the national statistics centre, is shown in Table 3 below.

Table 3: Zimbabwe lint exports 2014/15 MY

Destination	Volume exported (MT)	Volume exported (480 bales)
South Africa	38,316	175,972
Others	60	275
Total	**38,376**	**176,247**

Source: ZIMSTATS (Ministry of Finance)

Lint exports in the 2015/16 MY are expected to be around 33,000 MT (150,000 480lb bales), about 13 percent lower than in 2014/15 MY, due the reduced size of the seed cotton crop. Cotton lint exports is expected to double in the 2016/17 MY too around 65,000 MT (300,000 480lb bales)

Prices

Prices for the 2015/16 MY have not yet been announced. Prices are negotiated between farmers and buyers/ginners and prices are based on grade and quality of the seed cotton. However, cotton industry sources have urged farmers to brace for relatively low prices that will not exceed last year's prices due to the low international price of cotton lint.

In the 2014/15 MY merchants and farmers agreed a two phase payment plan for seed cotton where an interim price of US$0.30 per kilogram was paid first and an additional payment based on grades was made after grading. This scenario is likely to be adopted in the 2015/16 MY.

Table 4: PSD table for cotton

Cotton	2014/2015		2015/2016		2016/2017	
Market Begin Year	Aug 2014		Aug 2015		Aug 2016	
Zimbabwe	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	180	200	160	175	160	300
Beginning Stocks	229	229	169	204	114	144
Production	185	196	140	150	180	395
Imports	0	0	0	0	0	0
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	414	425	309	354	294	539
Exports	200	176	150	150	140	300
Use	30	30	30	45	30	120
Loss	15	15	15	15	15	15
Total Dom. Cons.	45	45	45	60	45	135
Ending Stocks	169	204	114	144	109	104
Total Distribution	414	425	309	354	294	539
(1000 HA) ,1000 480 lb. Bales						